

**REPORT OF THE AUDIT OF THE
MCCREARY COUNTY
CLERK**

**For The Year Ended
December 31, 2009**



**CRIT LUALLEN
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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE MCCREARY COUNTY CLERK

**For The Year Ended
December 31, 2009**

The Auditor of Public Accounts has completed the McCreary County Clerk's audit for the year ended December 31, 2009. Based upon the audit work performed, the financial statement presents fairly in all material respects, the revenues, expenditures, and excess fees in conformity with the regulatory basis of accounting.

Financial Condition:

Excess fees decreased by \$14,613 from the prior year, resulting in excess fees of \$41,971 as of December 31, 2009. Revenues decreased by \$266,562 from the prior year and expenditures decreased by \$247,607.

Debt Obligations:

Total debt principal as of December 31, 2009, was \$46,485. Future collections of \$47,082 are needed over the next 3 years to pay all debt principal and interest.

Report Comment:

- The County Clerk's Office Lacks Adequate Segregation Of Duties

Deposits:

The County Clerk's deposits were insured and collateralized by bank securities.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Blaine Phillips, McCreary County Judge/Executive
The Honorable Eric Haynes, McCreary County Clerk
Members of the McCreary County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of revenues, expenditures, and excess fees - regulatory basis of the County Clerk of McCreary County, Kentucky, for the year ended December 31, 2009. This financial statement is the responsibility of the County Clerk. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the County Clerk's office prepares the financial statement on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the revenues, expenditures, and excess fees of the County Clerk for the year ended December 31, 2009, in conformity with the regulatory basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated June 30, 2010 on our consideration of the McCreary County Clerk's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



The Honorable Blaine Phillips, McCreary County Judge/Executive
The Honorable Eric Haynes, McCreary County Clerk
Members of the McCreary County Fiscal Court

Based on the results of our audit, we have presented the accompanying comment and recommendation, included herein, which discusses the following report comment:

- The County Clerk's Office Lacks Adequate Segregation Of Duties

This report is intended solely for the information and use of the County Clerk and Fiscal Court of McCreary County, Kentucky, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a stylized, flowing script.

Crit Luallen
Auditor of Public Accounts

June 30, 2010

MCCREARY COUNTY
ERIC HAYNES, COUNTY CLERK
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2009

Revenues

State Grants	\$	5,321
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House Bill 537 - Revenue Supplement		57,376
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State Fees For Services		6,666
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Fiscal Court		11,047
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Licenses and Taxes:

Motor Vehicle-

Licenses and Transfers	\$	446,833
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Usage Tax		439,405
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Tangible Personal Property Tax		676,511
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Other-

Fish and Game Licenses		4,987
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Marriage Licenses		6,603
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Occupational Licenses		1,186
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Deed Transfer Tax		11,298
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Delinquent Tax	158,007	1,744,830
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Fees Collected for Services:

Recordings-

Deeds, Easements, and Contracts		8,587
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Real Estate Mortgages		13,631
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Chattel Mortgages and Financing Statements		43,982
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Powers of Attorney		943
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All Other Recordings		18,982
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Charges for Other Services-

Candidate Filing Fees		3,150
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Copywork		5,949
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Bail Bond	1,744	96,968
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Other:

Affordable Housing Trust Fund		14,778
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Miscellaneous	7,482	22,260
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Interest Earned		342
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Total Revenues		1,944,810
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The accompanying notes are an integral part of this financial statement.

MCCREARY COUNTY
ERIC HAYNES, COUNTY CLERK
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
For The Year Ended December 31, 2009
(Continued)

Expenditures

Payments to State:

Motor Vehicle-

Licenses and Transfers \$ 304,406

Usage Tax 426,224

Tangible Personal Property Tax 259,522

Licenses, Taxes, and Fees-

Fish and Game Licenses 4,774

Delinquent Tax 20,394

Legal Process Tax 15,190

Affordable Housing Trust 12,594 \$ 1,043,104

Payments to Fiscal Court:

Tangible Personal Property Tax 107,767

Delinquent Tax 15,319

Deed Transfer Tax 10,659 133,745

Payments to Other Districts:

Tangible Personal Property Tax 272,518

Delinquent Tax 82,683 355,201

Payments to Sheriff 1,349

Payments to County Attorney 18,406

Operating Expenditures and Capital Outlay:

Personnel Services-

Deputies' Salaries 130,436

Employee Benefits-

Employer's Share Social Security 14,742

Employer's Share Retirement 30,292

Employer's Paid Health Insurance 36,774

Contracted Services-

Accounting Services 1,200

Printing and Binding 2,985

Computer Software & Maintenance 6,178

The accompanying notes are an integral part of this financial statement.

MCCREARY COUNTY
ERIC HAYNES, COUNTY CLERK
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
For The Year Ended December 31, 2009
(Continued)

Expenditures (Continued)

Operating Expenditures and Capital Outlay: (Continued)

Materials and Supplies-			
Office Supplies	\$	7,245	
Other Charges-			
Dues		2,484	
Postage		3,735	
Phone Expense		4,148	
Miscellaneous		5,103	
Refunds		4,890	
Other Insurance		812	\$ 251,024
Capital Outlay-			
Library and Archives equipment		25,527	
Equipment		1,205	26,732
Total Expenditures			<u>\$ 1,829,561</u>
Net Revenues			115,249
Less: Statutory Maximum			<u>68,796</u>
Excess Fees			46,453
Less: Expense Allowance		3,600	
Training Incentive Benefit		882	4,482
Excess Fees Due County for 2009			41,971
Payments to Fiscal Court - January 20, 2009		1,476	
- February 9, 2010		37,073	38,549
Balance Due Fiscal Court at Completion of Audit			<u>\$ 3,422</u>

The accompanying notes are an integral part of this financial statement.

MCCREARY COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2009

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount, including excess fees, due from the County Clerk as determined by the audit. KRS 64.152 requires the County Clerk to settle excess fees with the fiscal court by March 15 each year.

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting, revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive), at December 31 that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2009 services
- Reimbursements for 2009 activities
- Payments due other governmental entities for December tax and fee collections and payroll
- Payments due vendors for goods or services provided in 2009

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the County Clerk's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

MCCREARY COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2009
(Continued)

Note 2. Employee Retirement System

The county official and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing, multiple employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability and death benefits to plan members. Benefit contributions and provisions are established by statute.

Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 6 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 13.50 percent for the first six months and 16.16 percent for the last six months.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Nonhazardous employees who begin participation on or after September 1, 2008 must meet the rule of 87 (members age plus years of service credit must equal 87, and the member must be a minimum of 57 years of age) or the member is age 65, with a minimum of 60 months service credit.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

Note 3. Deposits

The McCreary County Clerk maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1) (d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the County Clerk and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the County Clerk's deposits may not be returned. The McCreary County Clerk does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of December 31, 2009, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

MCCREARY COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2009
(Continued)

Note 4. Grant

The McCreary County Clerk received a local records microfilming grant from the Kentucky Department for Libraries and Archives in the amount of \$5,321. Funds totaling \$4,750 were expended during the year and funds totaling \$571 were returned to the Department for Libraries and Archives. The unexpended grant balance was \$0 as of December 31, 2009.

Note 5. Leases

- A. The McCreary County Clerk was committed to a lease agreement for a copying machine. The agreement requires a monthly payment of \$134 for 48 months to be completed on June 3, 2013. The total principal balance of the agreement was \$4,940 as of December 31, 2009.
- B. The McCreary County Clerk was committed to four lease and maintenance agreements for computer software and hardware maintenance for multiple workstations. The agreements require a total monthly payment of \$1,187 for 60 months to be completed on November 29, 2012. The total balance of the agreement was \$41,545 as of December 31, 2009.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Blaine Phillips, McCreary County Judge/Executive
The Honorable Eric Haynes, McCreary County Clerk
Members of the McCreary County Fiscal Court

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the statement of revenues, expenditures, and excess fees - regulatory basis of the McCreary County Clerk for the year ended December 31, 2009, and have issued our report thereon dated June 30, 2010. The County Clerk's financial statement is prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the McCreary County Clerk's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Clerk's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Clerk's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying comments and recommendation, we identified a certain deficiency in internal control over financial reporting that we consider to be a material weakness.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying comment and recommendation to be a material weakness.

- The County Clerk's Office Lacks Adequate Segregation Of Duties



Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the McCreary County Clerk's financial statement for the year ended December 31, 2009, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The McCreary County Clerk's response to the finding identified in our audit is included in the accompanying comment and recommendation. We did not audit the County Clerk's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the McCreary County Fiscal Court, others within the entity, and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Crit Luallen', with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

June 30, 2010

COMMENT AND RECOMMENDATION

MCCREARY COUNTY
ERIC HAYNES, COUNTY CLERK
COMMENT AND RECOMMENDATION

For The Year Ended December 31, 2009

INTERNAL CONTROL - MATERIAL WEAKNESS:

The County Clerk's Office Lacks Adequate Segregation Of Duties

The McCreary County Clerk's office lacks adequate segregation of duties. The Clerk accepts cash receipts, prepares disbursements, posts to the ledger and endorses disbursements. One of the Clerk's employees accepts cash receipts as well as reconciling weekly reports and preparing the bank reconciliation. The lack of adequate segregation of duties has led to the following errors:

- The Clerk paid one invoice for employees' health insurance twice
- The Clerk paid an invoice involving his personal business with monies from the fee account. Although these funds were reimbursed, the lack of controls allowed the error to occur.
- Delinquent tax payments to the Sheriff were not paid timely
- Delinquent tax payments to the County Attorney were not paid timely
- The Clerks delinquent tax reports were consistently over or short due to software calculation errors
- Monies belonging to the 2010 fee account were used to pay for 2009 services

This deficiency has been evaluated and deemed a material weakness to the Clerk's financial statements. Adequate segregation of duties would prevent the same person from having a significant role in the receiving, processing, recording and reporting of receipts and disbursements. The County Clerk should strengthen internal controls by either segregating the duties or by implementing and documenting compensating controls. Examples of compensating controls include, but are not limited to, routinely reviewing daily checkout procedures for accuracy, routinely verifying the line item totals per monthly reports agree to the ledgers and ensuring that quarterly financial statements are accurate. The Clerk could document his review process by initialing reports and supporting documentation.

County Clerk's Response:

- *All the above mentioned recommendations have been corrected with the installation of new software.*
- *I inadvertently wrote a \$140.00 check out of the wrong account, which was also corrected immediately.*
- *We are utilizing several compensating controls by having employee reports double checked before submitted.*

